FISCAL NOTE

Bill #: SB0424 **Title:** Revise school finance; increase school facility entitlements

Primary Sponsor: Nelson, L **Status:** Final

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 Difference	FY 2005 Difference
Expenditures:		
General Fund	($3,679,981)	$3,577,643
Net Impact on General Fund Balance:	$3,679,981	($3,577,643)

- [x] Significant Local Gov. Impact
- [ ] Included in the Executive Budget
- [ ] Dedicated Revenue Form Attached
- [ ] Technical Concerns
- [x] Significant Long-Term Impacts
- [x] Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

School Facility Funding and Debt Service Block Grant

1. Block grants paid from the state general fund to school district debt service funds are eliminated. Under current law the block grants for debt service are the average of amounts paid in FY 2002 ($4,041,785) and FY 2003 ($3,939,032) inflated by 0.76% each year or $4,020,735 in FY 2004 and $4,051,293 in FY 2005.
2. SB 424 increases school facility entitlements per ANB from $220 to $300 for elementary districts, from $330 to $450 for high school districts, and from $270 to $370 for accredited junior high or middle schools.
3. In FY 2003, 82 districts qualify for a state facility payment. Ten districts will sell new bond issues that qualify for a state facility advance and reimbursement in each year of the 2004 - 2005 biennium.
4. SB 424 will increase the number of districts eligible for a state facility reimbursement by including districts that sold bonds before July 1, 1991 and by increasing the statewide taxable value multiplier used to calculate the facility guaranteed mill value from 121% to 140%. In FY 2004, 128 districts will qualify for a state reimbursement and/or advance for school facilities because they have both a debt service obligation on bonds and a district mill value per ANB that is less that the facility guaranteed mill value per ANB. In FY 2005 138 districts will qualify.
5. The average number belonging (ANB) in K-12 public schools will be as follows:

	FY 2003	FY 2004	FY 2005
K-6 ANB	76,057	74,289	72,130
7-8 ANB	25,082	25,147	25,203
9-12 ANB	50,366	49,989	49,002
Totals	151,505	149,425	146,662

6. The taxable valuation of all property in the state for tax year 2002 is $1,718,653,223. Taxable valuation statewide will increase by 4% for tax year 2003. Taxable valuations in districts that have a debt service obligation will also increase by 4% between tax years 2002 and 2003.
7. The facility guaranteed mill value per elementary ANB is currently $20.19. It will increase to $23.36 in FY 2004 and to $24.78 in FY 2005 under SB 424. The facility guaranteed mill value per high school ANB is currently $40.55 will increase to $46.92 in FY 2004 and $49.05 in FY 2005 under SB 424.
8. The current law cost of state school facility reimbursements and advances will be prorated by 97.5% to be $4,250,000 in FY 2004 and will be prorated by 94.7% to be $4,360,000 in FY 2005.
9. Under SB 424, the state cost of school facility reimbursements and advances will be prorated by 92.4% and cost $8,270,735 in FY 2004 and will be prorated by 89.6% and cost $8,411,293 in FY 2005.
10. The net impact to the state of the School Facility Funding and Debt Service Block Grant changes is zero.

Transportation Funding and Transportation Block Grants

11. The block grant paid from the state general fund to school district transportation funds will be reduced by half, or $1,759,981 in FY 2004 and $1,773,357 in FY 2005. Under current law, the block grants for district transportation are the average of amounts paid in FY 2002 ($3,538,391) and FY 2003 ($3,448,434) inflated by 0.76% each year or $3,519,962 in FY 2004 and $3,546,714 in FY 2005.
12. Under current law a school district's state and county transportation payment is based on both the size of the bus and the number of kids who ride that bus. SB 424 would base the state and county bus mileage reimbursement rate solely on size of the bus.
13. Current rates per bus mile range from $0.85 per mile to $1.81. Under SB 424 rates per bus mile would range from $0.95 per mile to $1.80.
14. The State's obligation for funding school transportation will increase by $1.7 million. Counties will be required to match the increase in state funding by increasing the countywide property tax levy for pupil transportation. This increases revenue into the district to fund transportation by $3.4 million per year.
15. The combination of assumptions 11 and 14 will net a $1.7 million increase in county funding for district transportation. This will decrease district transportation levies by a like amount.
16. The net impact to the state general fund of the Transportation Funding and Transportation Block Grants changes is positive $59,981 in FY 2004 and $73,357 in FY 2005.

Combining Block Grants

17. The proposal to combine block grants will have no fiscal impact to the state.

CPI Adjustment

18. The effective date for the CPI adjustment is July 1, 2004.
19. SB 424 requires the Superintendent of Public Instruction to calculate an inflation factor for the basic and per-ANB entitlements based on the consumer price index (CPI-U). The inflation factor for FY 2006 will be the compound average growth rate for 2001 through 2004. For FY 2007, the inflation factor would be equal to the compound average growth rate for 2003 through 2005.
20. The inflation factors for FY 2006 and FY 2007, coupled with enrollment changes, would be used to determine the present law base for K-12 BASE aid.
21. These inflators have no impact on state support for schools in the 2005 biennium.

School Elections

22. For 2003 only, SB 424 allows school districts to schedule their general fund operating levy election any time prior to the adoption of the final budget in August. In addition, all statutory deadlines for the regular school election that fall on or before April 18 are extended to April 28, except that the timeline for posting the election notice is changed to April 28 through May 2. This provision in SB 424 has no fiscal impact.

District General Fund

23. Under current law, direct state aid will be $319.05 million in FY 2004 and $314.20 million in FY 2005. Special education payments will be $34.91 million in FY 2004 and FY 2005. Guaranteed tax base aid to schools will be $97.82 million in FY 2004 and $95.24 million in FY 2005.
24. SB 323 does not affect the state special education appropriation in FY 2004, but increases the special education appropriation by $1.5 million in FY 2005.
25. Under SB 323, direct state aid will be $322.65 million in FY 2004 and $324.52 million in FY 2005. Guaranteed tax base aid paid to schools will be $99.15 million in FY 2004 and $99.32 million in FY 2005 for a $19.33 million state general fund increase in the biennium from the entitlement increases and $1.5 million increase from the special education increase in assumption 24.
26. As school district general fund budgets increase, increased salaries will lead to higher district retirement costs. District retirement costs are charged to the county retirement levies and state retirement guaranteed tax base (GTB) aid. Because the increases contained in this bill do not exceed the amount that district budget are assumed to increase under present law, there is no additional retirement amount added as a result of this bill.

Retirement Fund Change

27. Retirement benefits as defined in this fiscal note include contributions of the employer to retirement systems, unemployment insurance, social security and Medicare.
28. School districts expended $643.5 million for salaries in all school funds in FY 2002. Under SB 323, school districts would be required to charge retirement benefits to federal funds for employees who are paid from federal funds.
29. Salaries for this group of employees totaled $69.06 million in FY 2002. It is assumed that salaries paid from federal funds increase by 13% from FY 2002 to FY 2003, and 14% from FY 2003 to FY 2004 and 10% in from FY 2004 to FY 2005. Salaries paid from federal dollars will be $88.88 million in FY 2004, and $97.77 million in FY 2005. The largest of the federal programs are Title I, Special Education, and federal Impact Aid.
30. The retirement cost for this employee group is the same as the percent of salaries that the individual districts charged to the retirement fund in FY 2002. The current law amount that school districts will charge federal funded salaries retirement expenses to the retirement fund are $11.08 in FY 2003, $12.58 million in FY 2004 and $13.84 million in FY 2005.
31. The increase in costs from federally paid for positions from FY 2004 to FY 2005 (12.58-11.08) will be $1.5 million. There will be "slippage" from federal funds into the general fund in the first year of $400,000. The reduction in the charges to the retirement fund will be $1.1 million; the state share of this is anticipated to be $300,000.
32. All federally funded positions will fund the cost of the retirement benefits from federal funds in FY 2005.
33. Districts will move as many positions as possible to the district general fund or the interlocal agreement fund. The net decrease in charges to the retirement fund will be $1.1 million in FY 2004 and $12.0 million in FY 2005.
34. In the first year that the retirement proposal is in effect districts will need to reduce their retirement fund reserves to the new lower level of retirement fund charges. This will have a one-time reduction in charges to the county and the state by $2.9 million in FY 2005.
35. The state and county share the cost of the Retirement fund. The state's participation is based on a guaranteed tax base (GTB) aid formula. In FY 2004, the state share in this reduction in retirement fund cost is $300,000 in FY 2004 and the county savings is anticipated to be $800,000 in FY 2004. In FY 2005, the state share in this reduction in retirement fund cost is $4,000,000 and the county savings is anticipated to be $10,900,000.
36. The total anticipated savings to the state and county from this portion of the bill are:

	FY 2004	FY 2005
County	$800,000	$10,900,000
State	$300,000	$4,000,000

Removal of County Retirement Fund HB 124 block grant

37. SB 323 removes the county retirement fund block grants that originated in HB 124 in the 2001 session. Under current law these block grants will be $10.47 million in FY 2004 and $10.55 in FY 2005. The savings to the state general fund will be $10.47 million in FY 2004 and $10.55 in FY 2005.
38. The anticipated increased cost to the state through GTB aid and county levies from this reduction in funding from the block grants is:

	FY 2004	FY 2005
County	$8,256,000	$8,253,000
State	$2,215,000	$2,298,000

FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
Original SB 424 Expenditures:		
Local Assistance	($59,981)	($73,357)
SB323 portion of 424 Expenditures:		
Local Assistance - district	$4,935,000	$14,403,000
Local Assistance – district special education	0	1,500,000
Local Assistance – county retirement	1,915,000	(1,702,000)
Local Assistance – block grants	(10,470,000)	(10,550,000)
TOTAL	($3,620,000)	$3,651,000
Funding of Expenditures:		
General Fund (01)	($3,679,981)	$3,577,643
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	$3,679,981	($3,577,643)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. SB424 will shift property tax burdens by distributing the block grant for district debt service through the existing equalization formula, and by distributing one-half of the block grant for district transportation through the formula for state reimbursement of district on-schedule transportation costs.
2. Counties will be required to match the $1.7 million increase in state funding for pupil transportation. The county share of funding for transportation is provided through a non-voted, countywide property tax levy. This increase in county levies will be offset by a corresponding decrease in district levies.
3. Districts may choose to use the combined block grant for property tax relief or for increased spending in the district tuition, bus depreciation, building reserve, non-operating, flexibility and/or adult education fund.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. School districts will respond to the entitlement increases in SB 424 in two ways. Most districts will increase general fund spending; others will provide property tax relief. Some districts will combine the two approaches. Districts that are currently spending at the BASE budget level will be required to increase spending and local property taxes to achieve the new BASE level. Increases in property taxes to support the over-BASE portion of school district budgets will require voter approval.
2. Net district taxes for the BASE budget are anticipated to increase $1.5 million in FY 2004 and $4.5 million in FY 2005 as a result of the entitlement increases. Above BASE taxes may increase or decrease depending on the decisions and current budget status of the district.
3. If increases in federal revenue do not increase enough to absorb the cost of retirement for these employees, school districts will need to reduce services paid for from federal funds in order to pay retirement benefits from these funds.
4. Net county property taxes for retirement budgets are projected to increase by $7.5 million in FY 2004 and decrease by $2.7 million in FY 2005.

LONG-RANGE IMPACTS:

1. School district entitlements will be 3% higher in future years as a result of the 1% and 2% increases. As increases in federal funds are received they will no longer cause increases in state general fund expenditure and county levies.
2. The CPI adjustment section of the bill will require the present law budget of the Governor include an inflationary adjustment for schools, beginning in the 2009 biennium. This adjustment is anticipated to increase the present law costs for funding schools by approximately $30 million or more per biennium.

TECHNICAL NOTES:

1. The annual inflation adjustment calculated in section 1 for entitlements implies that the inflation rates will be applied to the entitlements. No procedure is included to apply the inflators to the basic and per-ANB entitlements in 20-9-306, MCA.
2. The inflation adjustment begins in 2006, so would not affect the budget preparation for the 2007 biennium.
3. Additional amendments are needed to Sections 2 and 3 to implement the amendment that allows district's to use the greater of the current year ANB.